

The Treasury Department has recommended the inclusion of OAI benefits in adjusted gross income and the adoption of a new, higher old-age exemption that would in effect leave nontaxable 90 percent of the aged persons receiving social security benefits. The other 10 percent of the beneficiaries would be taxable; but to allow for the return of previously taxed contributions, never would more than two-thirds of their benefits be subject to tax. There is no mention of a tax exemption for contributions (8, pp. 199-201).

The Treasury's proposal has the advantage of treating OAI benefits like all other forms of income, but in effect this is achieved by extending a new and larger exemption to all forms of income for 92 percent of the persons over 65. The problem of nontaxability of OAI benefits is settled; the problem of the exemption remains and will be discussed later.

By contrast, the proposal advanced in this paper and outlined above would result in higher taxes on the aged, but only on those who are taxable or near taxable. Additional taxes that would result would be collected from aged individuals in increasing proportion to their total income; additional benefits from these taxes could be distributed to the less affluent in inverse proportion to their other income or in any other pattern that seemed just.

If at the same time employee contributions were exempt from tax, there might be a net revenue loss and a net loss to the aged as a group. Offsetting this would be a greater equity of treatment. Persons young and old with equal incomes would pay equal taxes; or if it were felt that older taxpayers deserved special consideration, this could be given by an exemption applied to all forms of income or by special deductions applicable only to those taxpayers incurring the added expenses. Equity between generations would also be improved for no longer would a tax be levied on those persons who for years made OAI contributions, but because of an early death never enjoyed increased consumption or net worth from benefits; and only those persons who received benefits from their contributions would now be taxed on this gain.

3. PRIVATE PENSION PLANS

Under most private pension plans employers, and sometimes employees, contribute to a fund to provide pensions to workers when they retire. These plans, too, have enjoyed phenomenal growth.

TABLE II.—PRIVATE PENSION AND DEFERRED PROFIT-SHARING PLANS

	1950	1960	1965
Annual contributions by employers (million).....	\$1,750.0	\$4,690	\$6,660.0
Annual contributions by employees (million).....	\$330.0	\$790	\$1,090.0
Number of workers covered (thousand).....	9,800.0	21,200	25,400.0
Number of workers receiving benefits (thousand).....	450.0	1,780	2,750.0
Benefits paid (million).....	\$370.0	\$1,750	\$3,180.0
Reserves (billion).....	\$12.1	\$52	\$85.4

Source: Social Security Bulletin, April 1967, p. 20.

The tax treatment of payments into the funds largely parallels that of OAI, but the treatment of benefits differs. Employee contributions are included in the employee's taxable income; employer contributions are generally excluded; earnings of the pension funds are generally